



Request for City Council Committee Action from the Department of Community Planning & Economic Development - CPED

Date: June 21, 2010

To: Council Member Elizabeth Glidden, Chair, Regulatory Services, Energy, and Environment Committee

Referral to: Council Member Lisa Goodman, Chair, Community Development Committee
Council Member Betsy Hodges, Chair, Ways and Means/Budget Committee

Subject: Minneapolis Economic Recovery Strategy: State Office of Energy Security Grant Award; Multi-Family Housing Energy Efficiency Revolving Loan Fund.

Recommendation: The CPED Director recommends that the City Council:

1. Accept grant award of \$300,000 from the State Office of Energy Security (OES) to establish a Multi-Family Housing Energy Efficiency Revolving Loan Fund;
2. Authorize City officials to enter into an agreement with OES and to sign any necessary award documents;
3. Increase both the 2010 operating budget revenue and appropriation in fund/department 01SED/8900330 by \$900,000 to reflect both the grant award of \$300,000 and the required OES leverage amount of \$600,000;
4. Authorize City officials to enter into an agreement with the Metropolitan Consortium of Community Developers (MCCD) to provide loan servicing for the Multi-Family Housing Energy Efficiency Loan program and to sign all necessary loan servicing documents; and
5. Approve the attached Resolution delegating authority to the Executive Director of CPED or his designee to make and execute Loan Agreements and other appropriate Loan documents consistent with the Multi-Family Housing Energy Efficiency Loan Program Guidelines.

Previous Directives: City Council approved action on February 12, 2010 authorizing an application to the Minnesota Department of Commerce Office of Energy Security in response to a competitive solicitation to establish a revolving loan fund to finance energy upgrades and improvements.

Prepared by: Jessica Green, CPED Business Finance	Phone: 612-673-5232
Approved by: Charles T. Lutz, Deputy Director CPED	_____
Catherine A. Polasky, Director, Economic Development	_____
Presenters in Committee: Catherine A. Polasky, Director of Economic Development, CPED	

Reviews

- Permanent Review Committee (PRC): Approval N.A. Date _____

Financial Impact

- Other financial impact: A \$600,000 City match is required and has been committed by CPED (fund/department 01SED/8900330) to leverage the \$300,000 OES grant to establish the Multi-Family Housing Energy Efficiency Loan Program. This revolving loan fund program requires the repayment of principal with interest, allowing it to be self-sustaining, similar to the other small business assistance programs of the City of Minneapolis administered through CPED.
- Community Impact: This program helps reduce energy usage and cost in Multi-Family buildings, making them more affordable for tenants.
- Neighborhood Notification: N.A. A city-wide program available to all large Multi-Family buildings in Minneapolis.
- City Goals: The Program meets the City's goals for Eco-Focused; Use less energy, produce less waste, and for Jobs & Economic Vitality; Epicenter for the new green jobs economy.
- Sustainability Targets: The Program will assist with the City's efforts on climate change and reduced energy consumption.
- Comprehensive Plan: Loans funded through the Program will be in compliance with the City's Comprehensive Plan.
- Zoning Code: Projects will comply.
- Living Wage/Business Subsidy Agreement Yes _____ No X The Program is not subject to the State Business Subsidy Act in that the financial assistance is less than \$150,000 and assistance for energy conservation is not a business subsidy under the Act. The Program is also not subject to the City's local Ordinance on Living Wage based on the exemption for projects under \$100,000.
- Job Linkage Yes _____ No X Projects are being undertaken for the purpose of energy conservation.

Supporting Information

In late 2009, the Minnesota Department of Commerce Office of Energy Security (OES) issued a request for proposals from Minnesota economic development authorities and commercial, industrial and non-profit facility owners to develop and implement energy efficiency and renewable energy projects or programs. Funds for this RFP have been awarded to the State by the Department of Energy (DOE) under a State Energy Program (SEP) Grant.

With the approval of City Council, CPED staff submitted a proposal for the purpose of establishing a Multi-Family Housing Energy Efficiency Revolving Loan Fund. The City was recently notified of an award of \$300,000 for the creation of the RLF. As required by OES, CPED has committed \$600,000 to create an initial loan fund of \$900,000.

The program targets owners of large (i.e. structures of 4 stories or more containing more than 10 dwelling units) and aging Multi-Family residential properties in the City of Minneapolis. These structures typically have inefficient heating systems that negatively impact rental affordability (high utility/operating costs for building owners, resulting in higher rents) and use excessive amounts of energy. High operating costs can negatively

impact an owner's revenue stream and their ability to make needed investments in their properties. Based on our work with our local utilities, energy nonprofits, and the Minnesota Multi Housing Association, we understand that this has been a particularly vexing building sector to reach with energy efficiency work. With funding from the Office of Energy Security, we propose to demonstrate the viability of financing energy systems work in Multi-Family properties and pave the way for future private sector investment in these opportunities.

Many Multi-Family buildings in Minneapolis have aging, inefficient boilers. Though because Multi-Family properties are in essence small businesses often run by local owners/operators with narrow margins (particularly those with affordable units), building owners often don't have the ability to finance the substantial upfront costs of a major system upgrade such as a boiler replacement, even when there is potential for significant energy cost savings. We've consulted extensively with CenterPoint Energy program experts who have indicated that, in their experience, many Multi-Family building owners will take the initial step of having an initial audit that recommends a boiler replacement or retrofit; however, because they lack access to affordable financing to make these system upgrades, they opt for some simple low- and no-cost fixes instead (with minimal energy savings) thus missing substantial energy emission reduction opportunities and cost savings.

Replacing a large, inefficient condensing boiler substantially reduces natural gas usage. The Center for Energy and Environment estimates that many older apartment buildings in the city have a power burner boiler with a modulating burner, typically operating at 75% or less efficiency. Replacing this type of system with a new 90% efficient boiler system would result in efficiency gains of 15% or more and carry a roughly 8 to 10 year payback. A 90+% high-efficiency boiler for a multifamily property could cost somewhere in the range of \$25,000 to \$75,000, depending on the size, components, and efficiency level.

The new RLF program targeted to Multi-Family property owners in the city would help remove these financial barriers to this upfront capital investment, and would be structured in such a way that the energy savings would fully or substantially offset the debt service on the loan. The loans would target significant energy system upgrades including boilers, water heating and distribution systems, and control systems, among others.

The loans would carry a 4% interest rate with a maximum term of 10 years (aiming for a shorter term in cases where there is evidence of higher energy cost savings and a quicker payback). The loan value would be based on the certified auditor's recommendations and verified equipment costs, and account for CenterPoint's projected rebate amount. The proposed energy improvements must achieve a simple payback of no less than 2 years and no more than 15 years. With a relatively short payback period, once the loan has been repaid, the building owner will reap the full energy cost savings thus improving their long-term revenue stream and financial position.

CPED Business Finance staff would be the key program personnel conducting intake meetings with interested applicants and facilitating the loan application and approval process. The Metropolitan Consortium of Community Developers will service the loans on behalf of CPED for a fee. CPED staff will work in partnership with the Minnesota Multi Housing Association (and other organizations/agencies that work with this sector), to better understand and address market opportunities and obstacles, and to promote the loan program through their property owner networks.

Attachments

Exhibit A: Energy Efficiency Loan and Grant Program Guidelines

Exhibit B: Resolution

Exhibit A

Multi-Family Housing Energy Efficiency Loan Program Guidelines & Requirements Summary

The City of Minneapolis through the department of Community Planning & Economic Development (CPED) has established a city-wide, low-interest loan program to provide financing for energy efficiency upgrades to large (structures of 4 stories or more containing more than 10 dwelling units) Multi-Family residential properties.

The program will help remove financial barriers and allow property owners to obtain the upfront capital needed to make energy efficiency improvements. Loans will be structured in such a way that the energy savings would fully or substantially offset the debt service on the loan. The loans would target significant energy system upgrades including boilers, water heating and distribution systems, and control systems.

The Process

The borrower will begin the process by working with a State certified auditor to identify eligible improvements. Once the auditor has issued a recommendation, the building owner should contact CPED staff if they wish to begin the financing process. The borrower will be required to submit a CPED application and all required documentation. CPED staff will review the auditor's recommendations and analyze the financial condition of the borrower. An internal loan committee consisting of CPED Business Finance staff will review the loan request and issue a decision. If approved, the loan can be closed in as little as two weeks.

The Loan

CPED will provide a loan at a rate of 4%; loan amounts will vary based on the size of the project but will be limited to \$200,000. Eligible rebates would be used to pay down the principle balance of the loan. An application fee in the amount of \$200 will be collected by CPED at the time of the loan closing.

Eligible Applicants

- Applicant must be located in Minneapolis.
- Applicant must submit CPED Application and agree to a credit check (performed by MCCD).
- Applicant must be in operation for at least 12 months.
- An applicant must have the ability to repay the loan and be an acceptable credit risk as determined by CPED Staff.
- Applicant must be in compliance with all city code/licensing; no building or health code violations.
- Meet Minneapolis city code for all rehab work or equipment installation.
- Use contractors licensed in Minneapolis
- An applicant's property status must be as a conforming use or a legal non-conforming use under the City's Zoning Ordinance.

In reviewing applications, the City will take into consideration the following when determining priority: date of application, number of dwelling units impacted as a result of energy efficiency improvements, the extent of the improvements leveraged by revolving loan funds and the extent of reduction of overall emissions reduction or total energy savings.

Eligible Improvements

Improvements must be recommended by a certified auditor, produce verifiable energy savings, and be eligible for a CenterPoint rebate. Eligible projects include:

- Boiler replacement or retrofits
- Water Heating and Distribution system upgrades and replacement
- Control System installations

For more information

For additional information please contact:

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